

VZCZCXRO4923

PP RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHZN
RUEHLZ RUEHNP RUEHROV RUEHSK RUEHSR RUEHVK RUEHYG
DE RUEHPOD #0035/01 0371411
ZNR UUUUU ZZH
P 061411Z FEB 09
FM AMEMBASSY PODGORICA
INFO RUEKJCS/SECDEF WASHDC
RUEHC/SECSTATE WASHDC PRIORITY 1148
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHPOD/AMEMBASSY PODGORICA 1236

UNCLAS SECTION 01 OF 04 PODGORICA 000035

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: PREL PGOV MW
SUBJECT: SCENESETTER FOR GENERAL LIBBY VISIT TO MONTENEGRO

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¶1. (SBU) SUMMARY: Welcome to Montenegro. Your visit comes as the Montenegrin leadership continues its pro-NATO, pro-western stance, having recognized neighboring Kosovo in October 2008 and formally applied for EU membership in December 2008. The Government of Montenegro (GoM) remains a receptive interlocutor, eager to develop strong ties with Washington and to prove itself a reliable partner. The GoM also continues preparing for its goal of eventual NATO membership by pursuing the Intensified Dialogue with NATO begun in 2008, working to increase public support for NATO membership, and lobbying for a Membership Action Plan (MAP) invitation at the 2009 NATO summit. The GoM is making continued contributions to peacekeeping operations, including plans to deploy its own military units to ISAF. However, major decisions requiring legislative approval will be delayed until after parliamentary elections, scheduled for March **¶29**. The economy has been fueled heavily by FDI in the tourism sector, but faces slower growth in 2009 due to the global economic crisis. END SUMMARY

NATO Membership a Top GoM Priority

¶2. (SBU) Following independence, the Ministry of Defense (MoD) -- led by Minister of Defense Boro Vucinic -- has built its organization from the ground up. Developing its human resource capacity is proving to be a major challenge. Other challenges include prioritizing requirements, building the legal and regulatory framework for its volunteer force, and establishing a functioning procurement system.

¶3. (SBU) The Montenegrin Armed Forces are led by Chief of Defense Admiral Dragan Samardzic. Montenegro inherited an outdated, ill-equipped military that is still working to organize itself as a modern, NATO-interoperable force capable of contributing to force projection and peacekeeping operations. The latest Montenegrin Strategic Defense Review (SDR) calls for a 2,400-person force (plus 300 reservists) structure under a combined service of naval, ground, and air assets. Their goal is a combat capable, fully professional force which serves their nation not only in operations outside its borders, but also is capable of homeland defense, assisting the Ministry of Interior in crisis management.

¶4. (SBU) Montenegro continues to make forward progress in establishing its nascent defense institutions and future military structure. The GoM has stated that NATO Membership is a strategic goal for the nation. Montenegro was invited to Intensified Political Dialogue at the NATO Bucharest Summit in April 2008. GoM officials are hopeful an invitation to the Membership Action Plan (MAP) will be forthcoming at the NATO summit this spring.

¶5. (SBU) Montenegro's progress toward NATO was validated by a NATO assessment team, which last month gave the GoM high marks for its reforms to date, particularly in the defense sector. The MoD touts its potential niche capabilities in the areas of naval salvage and recovery operations, a regional demining diving center, mountain infantry, military medical teams, and potentially a regional helicopter training center.

¶6. (SBU) In June 2008, Montenegro completed the destruction of 1,500 Strela Man Portable Air Defense Systems (MANPADS) under a two million dollar USG demilitarization program. This was an important contribution in support of the WOT, and we are continuing the program to encompass the destruction of more than 2,000 sea mines, rockets, and other outdated arms and ammunition. Additionally, Montenegro officially donated more than 1,500 small arms weapons and 200,000 rounds of ammunition to the Government of Afghanistan in September 2007. In December 2007, the GoM signed a Transit Agreement with NATO to facilitate the use of its territory to reinforce KFOR in the event reserves are needed in Kosovo. As a result of the recent PARP assessment, Montenegro may have additional items to donate or sell that are now considered surplus.

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¶7. (SBU) Montenegro signed an Article 98 Agreement with the U.S. and has stated its intention to contribute military units to support NATO operations in Afghanistan. A three-man medical team will deploy in August as part of a larger contingent from the region. MoD has said privately it plans to deploy an infantry platoon to the International Security Assistance Force (ISAF) operations in late 2009.

¶8. (SBU) The MoD has been negotiating with private firms to assist in preparing their infantry company for deployments in support of ISAF this year. It will look to the Maine National Guard for additional training in support of this deployment and future NATO activities.

¶9. (SBU) Vice-Admiral Samardzic visited Joint Forces Command - Naples (JFC Naples) February 1-2, 2009. Admiral Fitzgerald committed to a U.S. ship visit in April. As part of this ship visit, Montenegro will have crew on the ship for two weeks through the Sea Rider program. Samardzic committed Montenegro to providing a liaison officer (LNO) by June 2009 as an active PfP member and as part of the JFC Naples staff.

GoM Decision to Recognize Kosovo

¶10. (SBU) In possibly its biggest foreign policy decision since independence, the GoM announced Montenegro's recognition of Kosovo as an independent country in October 2008. The GoM faced fierce opposition to this decision domestically (32 percent of the population consider themselves Serbs) and from the Government of Serbia. The establishment of full diplomatic relations with Pristina continues to be a delicate political issue for the GoM.

Stable Political Situation, But Elections in March

¶11. (SBU) Almost three years after the split from Serbia, no major political parties actively question Montenegro's independence. The May 2006 referendum and subsequent September 2006 parliamentary and April 2008 presidential contests met international standards for free and fair elections. In October 2007, Montenegro adopted a new Constitution through democratic debate.

¶12. (SBU) In late January, at the request of the GoM, Parliament voted to curtail its mandate. President Vujanovic then set March 29 as the date for election of a new parliament (ahead of the regular election scheduled for late 2009). The election campaign will be in its early stages at the time of your visit and is likely to delay major political decisions until later in the year. The ruling Democratic Party of Socialists (DPS) - Social Democratic Party (SDP) coalition is the heavy favorite to return to power.

¶13. (SBU) Montenegro signed a Stabilization and Association Agreement (SAA) with the European Union in October 2007, and formally applied for candidate status in December 2008. Montenegro is a member of the United Nations (UN), Organization for Security and Coordination in Europe (OSCE), and the Council of Europe. It has been a constructive regional player, building good relations with neighbors and participating in numerous regional initiatives (such as CEFTA, SECI, and the Stability Pact).

¶14. (SBU) President of the ruling Democratic Party of Socialists
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(DPS) Milo Djukanovic, who led Montenegro from the reintroduction of multi-party democracy in 1991 to independence in 2006, declined to seek reappointment as Prime Minister after his party won the September 2006 parliamentary election. Djukanovic returned to office as PM in February 2008, when previous PM Sturanovic resigned for health reasons. Prime Minister Djukanovic has stated repeatedly that his government's primary foreign policy goals are EU and NATO membership, and he speaks candidly about the U.S. as Montenegro's "strategic partner."

¶15. (SBU) Domestically, the GoM's track record on fully implementing needed democratic and economic reforms is generally positive, with room for improvement (particularly in strengthening the rule of law). Privatization of remaining infrastructure (airports, railroad, and the port of Bar) and the energy sector has been slow, as the smaller coalition partner, the Social Democratic Party (SDP), is hesitant to cede state

control in these sectors. Though the DPS and SDP have differing opinions on the state's role in strategic industries, they have put them aside and agreed to run again as a coalition in the parliamentary election this March.

¶16. (SBU) The opposition is fractious and to date has been ineffective in presenting a serious challenge to the DPS. Several opposition parties are currently discussing the possibility of cooperating in the March elections. Most opposition parties either oppose or straddle the fence on the issue of NATO membership for Montenegro. Almost all, however, are in favor of EU membership.

Fighting Corruption

¶17. (SBU) As in other southeastern European countries, corruption exists at all levels of government and society. Many Montenegrin citizens list corruption as the country's biggest problem (along with low living standards). The GoM has published an Action Plan for fighting corruption, and issues semiannual reports on its progress, but successful prosecutions and punishment are still rare.

Attracting Investment

¶18. (U) Montenegro has been successful in attracting significant foreign direct investment (FDI), though so far little of that has been from the U.S. The economy continues to expand, fueled by a boom in coastal tourism and investment. In the last two years, the GoM has tamed inflation, moved closer to WTO membership, privatized almost 90 percent of the economy, and successfully created a generally business-friendly environment which has produced the highest per capita rate of FDI in the region. The country established the lowest corporate tax rate in the region (nine percent) and dramatically improved its tax policy. Tourism and tourism-related investments, particularly along the Adriatic coast, are booming, and the independent World Travel and Tourism Council has ranked Montenegro as the top-growing tourism destination in the world.

¶19. (SBU) Montenegro currently is entering the largest investment cycle in its history as the GoM plans tenders totaling between 15 and 20 billion euros in infrastructure, tourism, energy, and the privatization of the remaining state-owned companies over the next two years. Eager to change the impression that only Russians are investing in Montenegro, the GOM is carrying out an aggressive "invest in Montenegro" campaign around the world, including in the United States.

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¶20. (U) Despite impressive recent trends, the global economic crisis will not completely bypass Montenegro. The country's GDP growth of the past two years - seven percent in 2007 and eight

percent in 2008 - is likely to slow considerably in 2009, with the IMF and World Bank estimating that it will fall to roughly two percent.

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